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Private Equity and Human Resources

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Description/definition

This article examines the impact of Private Equity Leveraged Buyouts (LBOs) on employees. It finds LBOs do not appear to have significant negative implications for overall employment and pay levels. Any negative employment effects are focussed on less productive sites, and reductions to pay levels are concentrated on administrative and managerial employees rather than production workers. Regarding intrinsic job quality, employees in LBOs report higher job demands counterbalanced by higher job resources compared to employees in non-LBOs. As a result, employees report equivalent levels of job-related mental health, job satisfaction and commitment in LBOs compared to non-LBOs. These findings are consistent with evidence of LBOs reporting increased rather than decreased levels of employee training. LBOs do not typically have negative implications for union representation or the scope and content of joint regulation. Whether Private Equity originates from an Anglo-Saxon country appears to have limited impact. In contrast, the institutional context in which LBOs occur appears to be important, with Private Equity upgrading human resource practices mainly in liberal-market economies.

Keywords

Private Equity, Leveraged Buyouts, Mergers and Acquisitions, Human Resource Management, Employees

Introduction

The impact of Private Equity on employees has attracted increasing interest in recent years, reflecting the important role of Leveraged Buyouts (LBOs) in corporate restructuring. This article updates prior reviews of what is currently known about the impact of LBOs on human resource-related matters (Bacon & Hoque 2019; Bacon, Wright, Ball & Meuleman 2013; Wright, Bacon & Amess 2009). In particular, it reviews issues relating to employment levels, pay, job quality, training, and industrial relations. It also briefly considers whether the human resource implications of LBOs vary by country of origin and institutional context.

Employment levels

Research suggests the impact of LBOs on employment levels is generally modest. Amess's (2019) review of 17 studies conducted mostly in the larger US and UK markets found that public-to-private deals have no negative employment effect, and concluded that Private Equity involvement in LBOs creates jobs. Other reviews similarly conclude that the effects of

LBOs on employment are modest overall (Tåg 2012; Wright, Bacon & Amess 2009). For example, Davis et al. (2014) report decreases in employment in LBOs of just 1 per cent. However, they found notable differences between less productive established sites compared to more productive and greenfield sites. Employment in less productive established sites reduced by 3 per cent in the first two years and 6 per cent in the first five years, while in more productive and greenfield LBO sites, job creation was 2 per cent higher than in non-LBOs. They therefore conclude that Private Equity engages in ‘creative destruction’, in which they wind down the bought-out firm’s less productive sites, but then grow job numbers considerably in productive and new sites. Subsequently, using an expanded dataset, Davis et al. (2019) also report large differences in changes to employment levels in the first two years according to deal source, with a 13 per cent decline in employment in buyouts of public firms, and a 13 per cent increase in employment in buyouts of private firms.

These studies rely on employment totals reported at establishment or firm level, potentially obscuring the possibility that some types of employees might be particularly prone to job loss following LBOs. Among studies able to differentiate between types of employees, Lichtenberg and Siegel (1990) reported an 8.5 per cent reduction in non-production workers (administrative and managerial employees) and no change in production workers in manufacturing sector LBOs. Olsson and Tåg (2017) reported an 8.6 percentage point reduction in offshorable workers in LBOs, but a 10.2 percentage point increase in routine workers. Regarding the workers made redundant following LBOs, Agrawal and Tambe (2016) reported that unemployment spells for former LBO employees are 2.9 months shorter than for former non-LBO employees, suggesting they benefit from skill upgrading in LBOs prior to leaving the firm.

These findings suggest that Private Equity acquisitions do not appear to have significant negative implications for employment levels. Bacon, Hoque and Wright (2018) reinforce this conclusion by reporting that British LBOs do not vary relative to non-LBOs regarding rates of redundancy or dismissal, workforce reduction practices (job security/no-compulsory redundancies policies, and redundancy consultation), or in the use of non-permanent employment contracts and outsourcing. This study also shows that LBO employees do not report higher job insecurity than non-LBO employees. This was even the case in supposedly ‘perfect storm’ (e.g., short-hold and high-debt) LBOs. These findings are consistent with a survey of 190 LBOs in Europe (EVCA 2008), in which most LBOs reported having made no redundancies, and of those reporting redundancies, 65 per cent offered enhanced severance packages, 46 per cent provided counselling, and 46 per cent offered outplacement assistance. Overall, concerns over the negative implications of Private Equity for job security appear misplaced.

Pay

Regarding wages, eight studies (six of which are in either the US or UK) have produced mixed findings, with little overall evidence that Private Equity ownership leads to wage suppression (Amess 2019). Disaggregated wage data in the US manufacturing sector shows that where LBOs do have a negative impact on wages, this is concentrated on administrative and managerial employees rather than production workers (Lichtenberg & Siegel 1990). Evidence from Germany shows wage suppression is concentrated on long-tenure older middle managers (Antoni, Maug & Obernberger 2019).

Regarding pay systems, Bacon, Wright and Demina's (2004) UK survey of 148 LBOs found increased use of performance appraisals and merit pay in LBOs. EVCA's (2008) survey of 190 LBOs in Europe also identified the widespread introduction of incentive pay schemes, including payment by results and profit-related pay. These findings are broadly consistent with Bloom, Sadun and Van Reenen's (2015) study that reported LBOs favour performance incentives to reward high-performing employees. EVCA's (2008) survey also suggests LBOs do not have negative implications for occupational pension schemes.

Job quality

LBOs have important implications for intrinsic aspects of job quality. Hoque, Bacon, Boodoo and Wright (2023) used matched employer-employee data from the 2011 British Workplace Employment Relations Study linked to data from the Centre for Management Buyout Research to compare employee reports of job quality in LBOs and non-LBOs. The study found that employees in LBOs reported higher job demands regarding how hard their job required them to work. However, they also reported higher job resources regarding levels of autonomy over their job tasks, pace of work, working method, and the start/finish of the working day. In addition, they reported greater participation in decision-making regarding whether managers sought their views and responded to their suggestions, and greater influence over final decisions (see also Amess, Brown & Thompson 2007). The study also found job-related mental health, job satisfaction and commitment were no poorer in LBOs.

Overall, Hoque et al. (2023) suggest that LBOs engage in 'workforce re-contracting', whereby they place higher demands on employees regarding work effort, but also provide them with greater job resources; hence, in accordance with Karasek and Theorell (1990), employee well-being and attitudes do not deteriorate. These findings are also consistent with evidence that LBOs improve workplace safety. Cohn, Nestoriak and Wardlaw (2021) find a large and persistent decline in Occupational Safety and Health Administration safety violations and injury rates at establishment level following LBOs in the US, and this facilitates early exit by Initial Public Offerings.

Training

Research suggests that LBOs have positive implications for employee training. For example, research drawing on a survey of managers in 148 UK LBOs and 45 LBOs in the Netherlands reports increased training following LBOs alongside increases in other complementary high-performance work practices such as team-based working and shared decision-making (Bacon et al. 2004; Bacon, Wright, Demina, Bruining & Boselie 2008; Bruining, Boselie, Wright & Bacon 2005). Similarly, Bloom et al.'s (2015) global study indicated that Private Equity-owned firms are more likely than most other ownership forms to retrain (or move) underperformers. EVCA's (2008: 17) survey reports that 45 per cent of LBOs increased expenditure on non-managerial employee training (adjusted for inflation), while only 3 per cent reduced expenditure. Bernstein and Sheen's (2016) study of 3,342 restaurants in Florida found that store-level training was higher in those that were LBOs.

These findings are consistent with Agrawal and Tambe's (2016) argument that LBOs engender technological change and address underinvestment in information technologies, which in turn generates employee upskilling. They are also consistent with Lichtenberg & Siegel's (1990) arguments that LBOs invest in worker training given the need for workers to

take on duties previously performed by supervisors, as hierarchical layers and middle management tiers are removed (Van Neerven, Bruining & Paauwe 1996).

Overall, it appears LBOs might help to address the underinvestment in workforce skills in companies that are subject to short-term stock market pressures and quarterly reporting requirements, in family firms prioritising socio-emotional wealth, or in neglected divisions of firms.

Industrial relations

LBOs do not typically have negative implications for union representation. Few changes to union recognition rates were reported in the first wave of UK buyouts (Bacon et al. 2004; Wright, Chiplin, Thompson & Robbie 1990; Wright et al. 2009). Bacon, Wright, Scholes and Meuleman's (2010) pan-European survey also reports little change in LBOs regarding union recognition, union membership density, management attitudes to trade union membership, and the frequency of consultation. Two-thirds of managerial respondents in the survey stated that they were either in favour or neutral towards union membership, and on average, the terms and conditions subject to joint regulation increased following LBOs, especially regarding distributive issues such as rates of pay, hours of work, and staffing plans. Additionally, use of consultative committees increased from 50 per cent pre-buyout to 63 per cent post-buyout. Managers also reported an increase in the influence of consultative committees following buyouts (EVCA 2008).

Variation by country of origin and institutional context

The implications of LBOs for employees might vary according to the investor's country of origin, or by institutional context. Regarding country of origin, there is limited evidence that Anglo-Saxon and foreign investor involvement are significantly related to LBOs introducing changes to human resource practices (Bacon, Wright, Scholes & Meuleman 2012). Anglo-Saxon investor involvement, however, is positively associated with the extension of performance-related pay schemes to cover more employees, and this is less likely when the buyout occurs in non-Anglo-Saxon countries (ibid.: 621).

Regarding institutional context, the main opportunities for Private Equity to upgrade human resource practices appear to be in liberal-market economies (EVCA 2008), in which stock market pressure may have deterred the widespread adoption of such practices, and weak employment protection legislation does not require firms to adopt them (Bacon et al. 2008; Bacon, Wright, Scholes & Meuleman 2012; Bruining et al. 2005). However, in countries where more employers commonly adopt sophisticated human resource practices there is no evidence that buyouts lead to a reduction in their use (EVCA 2008). Nevertheless, research on the impact of Private Equity on employment in France reached different conclusions (Guery, Stevenot, Wood & Brewster 2017), finding that establishments owned by foreign Private Equity investors were more likely to report employment declines among non-production workers in the previous three years, when compared to establishments owned by French Private Equity investors and non-Private Equity owned establishments. These findings are attributed to the role of state involvement in French Private Equity funds, with public investment groups adopting social as well as financial objectives. It is also possible, however, that the findings reflect selection effects whereby foreign investors may be more likely to acquire underperforming firms that require turnaround.

Conclusion

Studies drawing on nationally representative data have made important strides forward in understanding the impact of Private Equity and LBOs on a range of human resource outcomes. These studies have significantly countered the findings from selective case studies that suggest Private Equity has negative implications for employees (for example, Appelbaum & Batt 2014).

Future studies might usefully explore the effects of Private Equity in a greater range of countries, and on a wider range of previously unexplored employee outcomes (employees' perceived trust in management, for example). Further research is also warranted on the implications of LBOs for technological and operational upgrades associated with modern manufacturing and service delivery (Bloom et al. 2015). In addition, future studies might explore the theoretical arguments in the literature that specific LBOs types (involving outside managers, high levels of debt, and short-term ownership for example) may have particularly negative implications for employees (Appelbaum & Batt 2014). However, studies to date have not found strong or consistent evidence that these factors matter (Bacon et al. 2018; Hoque et al. 2023).

Beyond this, future research might explore other factors that potentially moderate the impact of Private Equity on human resources, for example, whether the LBO focuses on efficiency or growth (Bacon et al. 2013). Finally, future research might also further explore the implications of LBOs for different groups of workers (incumbent managers rather than non-managerial employees, for example). Such studies would add significantly to the evidence base on the implications of LBOs on human resource outcomes, and may add important nuance to the overall conclusion of studies to date, that LBOs do not have negative implications for employees.

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Related Entries

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